

**AFRICAN DEVELOPMENT REVIEW / REVUE AFRICAINE  
DE DEVELOPPEMENT  
VOL. 23 No. 1 March / Mars 2011**

**Introduction**

Kupukile Mlambo and Victor Murinde#  
*pages 1-3*

**Competition and Efficiency in the Banking Sector in South Africa**

Kupukile Mlambo and Mthuli Ncube  
*pages 4-15*

**Concurrence et compétitivité bancaire en Algérie: économétrie de  
panels sur la période 2000–2007**

Taoufik Rajhi and Hatem Salah  
*pages 16-29*

**Bank Deregulation and Performance in Nigeria**

Tianshu Zhao and Victor Murinde  
*pages 30-43*

**The Competitiveness and Efficiency of the Financial Services Sector  
in Africa: A Case Study of Kenya**

Francis Mwega  
*pages 44-59*

**Financial Sector Reforms, Bank Performance and Economic Growth:  
Evidence from Zambia**

Abraham Mwenda and Noah Mutoti  
*pages 60-74*

**The Competitiveness of Commercial Banks in Ghana**

Nicholas Biekpe  
*pages 75-87*

**Competitive Conditions in the Tanzanian Commercial Banking  
Industry**

Anthony M. Simpasa  
*pages 88-98*

# **Competitiveness and Efficiency of the Banking Sector and Economic Growth in Egypt**

Sunil S. Poshakwale and Binsheng Qian

*pages 99-120*

## **Competition and Efficiency in the Banking Sector in South Africa**

Kupukile Mlambo and Mthuli Ncube

*Abstract:* We analyse the evolution of competition and efficiency of the banking sector in South Africa using firm-level data for the period 1999–2008. We adopt a three-step estimation approach. First, we measure efficiency using the data envelopment analysis (DEA) methodology. Second, we use the Panzar–Rosse approach to derive the H statistic for competitive conditions in banking. In the third stage, we take into account the role of managerial ability in competition by re-estimating the Panzar–Rosse model, with the DEA efficiency scores as an explanatory variable. Overall, the results show that although average efficiency was trending upwards over the period, the number of efficient banks was falling. Also, it is found that for the period 1999–2008, the structure of the South African banking industry was characterized by monopolistic competition. This result may reflect domination by five large banks, which together account for over 85 per cent of total banking assets.

## **Concurrence et compétitivité bancaire en Algérie: économétrie de panels sur la période 2000–2007**

Taoufik Rajhi and Hatem Salah

*Résumé:* L'objet de ce papier est de mesurer la compétitivité des services financiers en Algérie en testant les conditions de concurrence dans le secteur bancaire algérien avant et après la restructuration bancaire. Pour ce faire, nous utilisons quatre mesures de la compétitivité des marchés bancaires en Algérie la statistique H de Panzar Rosse (1987), l'indice Lerner, le paramètre Thêta issu de l'approche CV (conjectural variation), et l'inverse de l'élasticité de demande de l'industrie bancaire. Il en découle de ces mesures que la concurrence s'est intensifiée sur les marchés bancaires en Algérie en dépit de la tendance à la concentration. La structure des marchés semble de type oligopolistique. Enfin, les banques à participation étrangère ne contribuent pas, jusqu'à présent, au renforcement de la concurrence en raison de la taille modeste du secteur des banques privées en Algérie.

## **Bank Deregulation and Performance in Nigeria**

Tianshu Zhao and Victor Murinde

*Abstract:* We investigate the interrelationships among bank competition, risk taking and efficiency during banking sector reforms in Nigeria (1993–2008). Our modelling procedure involves three stages: we measure bank productive efficiency, using data envelopment analysis, and the evolution of bank competition, using conjectural variations (CV) methods; then, we use the CV estimates to test whether regulatory reforms influence bank competition; finally we investigate the impact of the reforms on bank behaviour. The evidence suggests that deregulation and prudential re regulation influence bank risk taking and bank productive efficiency directly (direct impact) and via competition (indirect impact). Further, it is found that as competition increases, excessive risk taking decreases and efficiency increases. Overall, the evidence on Nigeria affirms policies that foster bank competition.

## **The Competitiveness and Efficiency of the Financial Services Sector in Africa: A Case Study of Kenya**

Francis Mwega

*Abstract:* This paper reviews the broad structural shifts in banks and other financial institutions in Kenya in the face of globalization. It is found that Kenya has moved into universal banking, reflected by the gradual elimination of 'specified' non-bank financial institutions since 1994 and the increased share of net commissions and fees in the banks' total income, from 10 per cent in 1998 to 21 per cent in 2007. The evidence suggests that the sector experienced reduced concentration and presumably more competition during 1998–2007. Further, it is found that small banks are the least competitive (most concentrated), followed by large banks and then medium-sized banks.

## **Financial Sector Reforms, Bank Performance and Economic Growth: Evidence from Zambia**

Abraham Mwenda and Noah Mutoti

*Abstract:* This paper investigates the effects of market-based financial sector reforms on the competitiveness and efficiency of commercial banks, and economic growth, in Zambia. The results show that reforms adopted in Phase II (strengthening of regulatory and supervisory, payments and settlements, and financial operations frameworks) and Phase III (implementation of a comprehensive financial sector development plan) had significant positive effects on bank cost efficiency. Macroeconomic variables such as per capita GDP and inflation were insignificant. Further, using an endogenous growth model in which industrial production is a proxy for GDP growth, it was found that bank cost efficiency, financial depth, Phase II and III financial sector reforms, the degree of economic openness, and rate of inflation were significant determinants of economic growth. Phase II policies and the inflation rate have negative effects while the rest of the variables have positive effects on economic growth. Some plausible policy lessons are offered.

## **The Competitiveness of Commercial Banks in Ghana**

Nicholas Biekpe

*Abstract:* The paper empirically investigates the degree of bank competition and intermediation efficiency in Ghana. The evidence obtained suggests a non-competitive market structure in the Ghanaian banking system, which hampers financial intermediation. The study also finds that Ghanaian banks are monopolistically competitive. It is argued that the structure, as well as the other markets characteristics, constitutes an indirect barrier to entry thereby shielding the large profits in the Ghanaian banking system. Further, it is argued that policies that encourage and stimulate greater consolidation in the financial sector would go a long way to enhance competition among banks and improve efficiency and profitability.

## **Competitive Conditions in the Tanzanian Commercial Banking Industry**

Anthony M. Simpasa

*Abstract:* Since 1991, Tanzania has made important improvements in reforming its financial sector, dismantling the state-dominated banking sector and allowing foreign bank entry. Despite this, the banking industry is still concentrated with low accessibility to financial services. Large foreign banks dominate the financial landscape, preventing competitive dynamism to permeate the sector. This paper analyses the competitive nature of the Tanzanian banking industry from 2004 to 2008. Utilizing a rich bank level data set, we employ the Panzar–Rosse methodology to compute the competitive index, taking into account risk, efficiency, regulatory and macroeconomic factors. The results show that banks in Tanzania earned their income under conditions of oligopolistic conduct. Moreover, the competitive index derived from an interest revenue equation was not significantly different from that obtained using an aggregate revenue measure. This suggests that the degree of contestability from traditional intermediation activities approximates overall bank behaviour. The overall message is that greater market contestability can be achieved by adopting measures aimed at stimulating competitiveness in the banking sector, including consolidating gains on the macroeconomic front and allowing more foreign bank entry so as to increase the spread of banking services.

## **Competitiveness and Efficiency of the Banking Sector and Economic Growth in Egypt**

Sunil S. Poshakwale and Binsheng Qian

*Abstract:* This paper investigates the impact of financial reforms on competitiveness and production efficiency of the banking sector, as well as the short-term and long-term impact on economic growth, in Egypt during 1992–2007. The results suggest that the reforms have a positive and significant effect on competitiveness and production efficiency. Also, the evidence shows that state-owned banks are generally less competitive than private banks and foreign banks are less competitive than domestic banks. The average x-inefficiency of Egyptian banks is around 30 per cent, which is comparable to those reported for other African countries. Finally, there is evidence to suggest a significant relationship between financial bank productive efficiency and economic growth in the short run but not in the long run. Overall, the results support the argument for continuing the financial sector reform programme in Egypt.